AUGUST 2, 1982 TWO DOLLARS AND FIFTY CENTS

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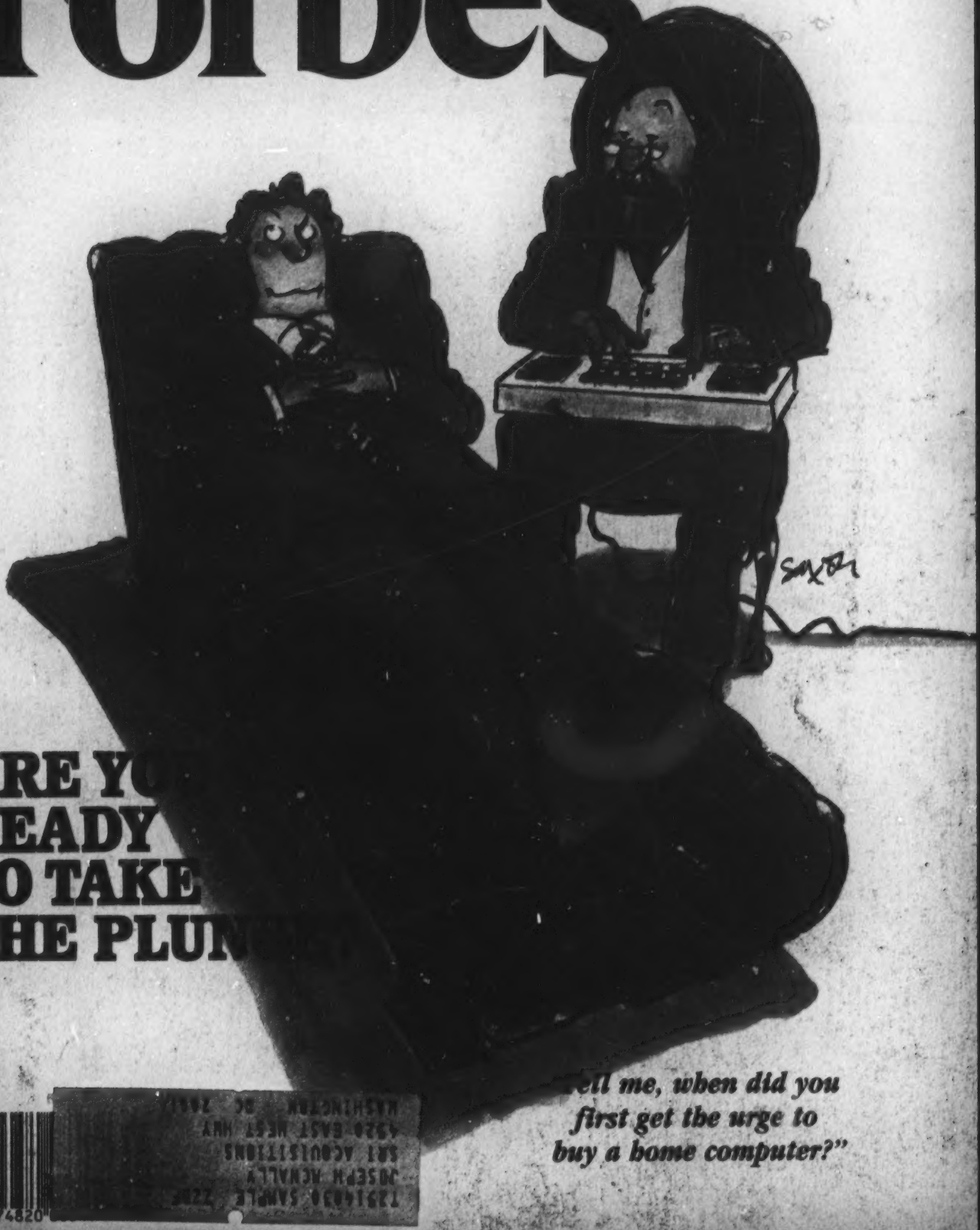
Forbes



ARE YO
READY
TO TAKE
THE PLU

...ell me, when did you first get the urge to buy a home computer?"

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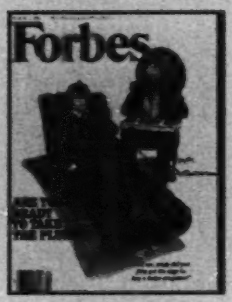
SAMPLE
ACQUISITIONS
4520 EAST WEST HWY
WASHINGTON DC 7881

August 2, 1982
Volume 130,
Number 3



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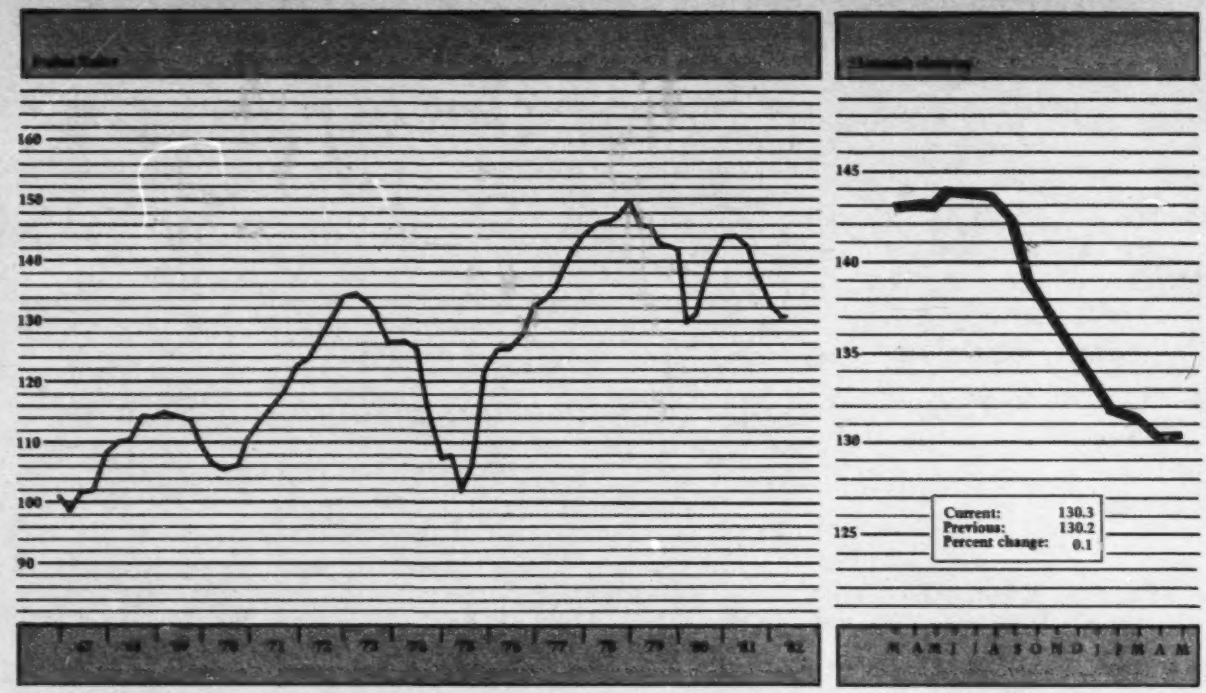
The Forbes Index



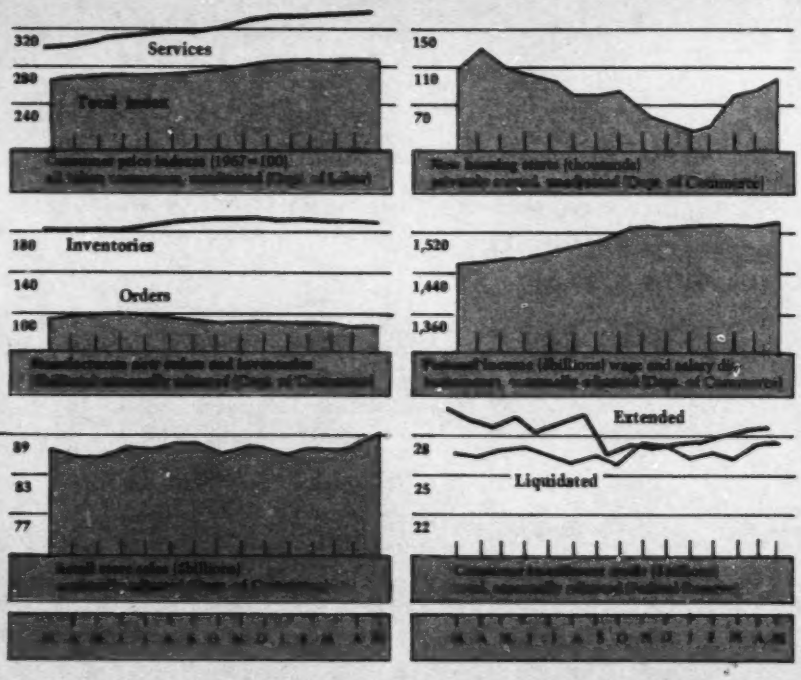
Breaking away. For the first time in more than ten months, the Forbes Index posted an advance. However, not all the components made favorable moves. Unemployment, for example, continues to rise. Claims for May increased by 2.6%. New factory orders, however, rose by 0.6% during the latest reporting period. As a result, manufacturers may soon begin hiring again. On the other hand, businesses are still extremely cautious. During May, manufacturers' inventories fell by 0.6%, indicating that corporations are more concerned with cutting costs than with spending money.

The best news is that consumers, who must lead the recovery, are already starting to spend. Consumer installment debt increased by a respectable 1.8%. The recovery, widely predicted to begin during the third quarter, may be arriving on schedule.

The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, the change in the amount of consumer installment debt outstanding.

To measure these eight elements, FORBES monitors 11 series of U.S. government data. The last 14 months' data for each series is presented at right.

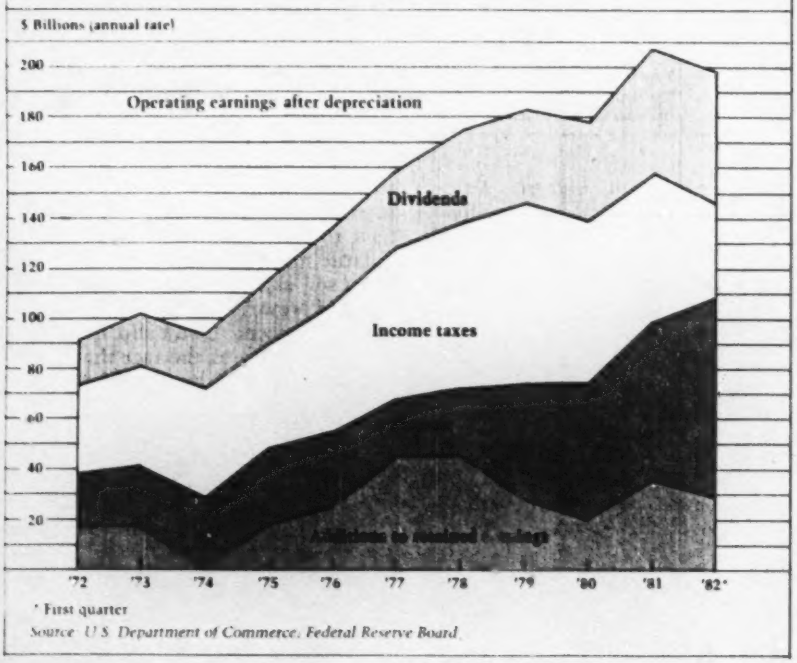


Suggestion to hard-pressed managements looking for cheap money: Why not ask stockholders to forego a dividend?

A modest proposal

Capital offenses?

Dividends were up in the first quarter of this year—to a $55 billion annual rate for nonfinancial corporations. That left very little for capital formation in spite of a tough profits squeeze. (The profit total represents reported results less an allowance for inflation-caused inventory gains and inadequate depreciation deductions.)



* First quarter

Source: U.S. Department of Commerce, Federal Reserve Board

By William Baldwin

CATERPILLAR TRACTOR HAS 16,700 employees on layoff, is planning to cut salaries 3% to 10% and has just announced first-half earnings off 83%, to 59 cents a share. Its blue-chip shares have dropped by 43% in a year. But it has raised its dividend to $2.70, *vs.* $2.40 last year.

American Telephone & Telegraph paid out $4.4 billion in dividends last year, then turned around and raised $3.2 billion in sales of new shares.

Is it in stockholders' best interest to borrow money or dilute the equity in order to pay dividends—which is what many of these companies are doing? It's one reason International Harvester is on the brink today. While it was borrowing huge amounts at ever-increasing interest rates, IH management was paying out common dividends totaling over $500 million. A prudent dividend policy? Or a profligate one?

Many corporations, anxious to placate shareholders, are paying out cash they desperately need. General Motors distributed $718 million last year, when it strained to show a profit of $333 million and increased long-term debt by $1.9 billion. At a time when employees are taking cuts and vital capital spending is being deferred, is there any reason stockholders couldn't forego a dividend or two?

If they did so, Uncle Sam would share their burden. The U.S., unlike most big European nations, levies two taxes on the stream of earnings from which dividends are paid: a corporate tax at up to 46% and a personal income tax at up to 50% on the dividends. Retained by the company and invested wisely, those same dollars are taxed but once and serve to enhance future earnings.

Why, then, do companies treat dividends as sacrosanct? "We have a lot of small shareholders who buy the stock for income," says J. Carter Bacot, chairman of the Bank of New York—a common explanation. His bank has been paying dividends without interruption since before George Washington's first term. It is not about to stop now.

Economists have expended much

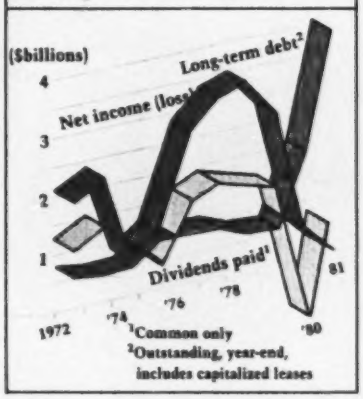
Divvying up

These three blue chips have this in common: They're big dividend payers. But one is a regulated utility, one a mature manufacturer, the third a leader in technology, and so the impact of their dividend policy varies.

AT&T
the merry-go-round

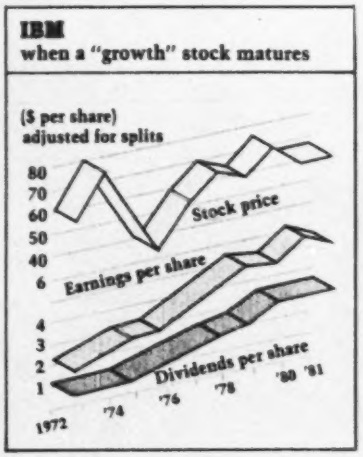
Bell Telephone's steady habits—it just sent out its 400th consecutive quarterly dividend—make shareholders happy. But New York University Professor Edwin Elton thinks the company is chasing its tail. "It's very difficult for me to see where a shareholder is better off if a firm goes out and gets new capital and then pays it out as dividends," he says. AT&T Treasurer Virginia Dwyer disagrees: The $4.4 billion of dividends came from profits on existing equipment, she says, while the $3.2 billion in new equity finances expansion. But how do you tell one dollar from another?

GM
retooling versus shareholders



Despite the Japanese inroads and two years of meager profits, General Motors remains the world leader in its industry. But should it continue that 60-cent quarterly dividend? Meeting foreign competition meant outlays last year of $3.2 billion for special tools and $6.6 billion for capital expansion. Earnings plus the cash flow from depreciation allowances weren't enough. It had to borrow.

IBM
when a "growth" stock matures



In the exuberant Sixties, Wall Street paid 60 times earnings for IBM and accepted a dividend yield of 1%. The return was supposed to come mostly from capital gains. The stock market debacle of 1973-74 made that idea unpopular; now, it seems, the only good thing about IBM is its dividend yield of 5.6%. But the capital gains advocates of the go-go years were right about the fact that dividends are a poor way to compensate capital. Their mistake was to conclude that stocks could only go up.

effort trying to unravel what they call the "dividend puzzle"—the nearly universal habit that, finance theory says, enriches the IRS rather than shareholders. Associate Professor David Mullins of Harvard Business School has recently completed exhaustive statistical work and come up with an answer: Dividend increases boost stock prices, above and beyond the effect of earnings increases often announced at about the same time. "Cash has credibility," he says. "By paying dividends you can convince investors that things are going well." In his world, managers are acting in the best interest of shareholders. Dividends are a "signal."

But a costly, irrational signal in these days of high taxes and high interest rates. And pity the shareholder who always takes it at face value. Braniff, Chrysler and International Harvester all continued dividends after several quarters of heavy losses, aggravating their troubles.

The big gainer is Internal Revenue: The tax liability on dividends exceeds $10 billion a year. (Some investors, of course, are exempt from current taxes: pension funds, college endowments and, under an exemption granted in 1981, small holders of most electric-utility shares.)

Wouldn't it make sense for shareholders who need income to sell a portion of their investment periodically, thus garnering cash at a lower tax rate and counting on capital gains to counter the dilution of their equity?

But dividends have a powerful constituency. Virginia Dwyer, the AT&T treasurer who answers to 3 million shareholders, bridles at the suggestion that dividends are superfluous. Capital gains are elusive, she says, dividends a surer thing. "In one case [the stockholder] is getting a predictable income stream. In the other he's going to have to sell part of his past investment, and the amount he's going to have to sell will be dependent on the volatile marketplace."

To sell shares, argues Bacot of the Bank of New York, is to violate that ancient precept, Don't dip into capital. Bacot ignores the fact that companies like GM that pay dividends they don't earn are dipping into capital. (And bondholders have been living off capital for a generation, often without even realizing it.)

Another defense of dividends runs like this: Retained earnings are fine for the Digital Equipments of the world, so flush with opportunities that they can plow back all earnings and still turn in a 30% annual growth in earnings per share. What about ma-

ture industries that throw off cash? Isn't that cash better off in shareholders' hands? Management might use it to finance an overpriced acquisition or indulge in capital spending with doubtful prospects for payoff. But that is perhaps the lamest argument of all for dividends. It assumes that management is incompetent to handle the money. If that is so—and it may be in some cases—why own those stocks at all?

What are the alternatives to dividends in companies with more cash flow than they need? Although many businessmen consider the practice almost sinful, buying in your own stock sometimes makes a lot of sense. Corporate stock repurchases, indeed, are just back-door dividends that escape the tax collector. Among the companies that have discovered the trick are Capital Cities Communications, which has in recent years spent about 10 times as much on repurchases as on dividends, and Tandy Corp., whose current yield is nil *(see table)*. Tax minimizing, of course, is never admitted as a motivation. "I just thought it was an alternative use of our capital," says Capital Cities Chairman Thomas Murphy.

The stingy Crown Cork & Seal has paid no dividend since 1956. It has doled out millions buying in stock. Investors who haven't sold have been rewarded in a different way: Earnings per share have compounded at a 25% annual rate over the past 25 years. The company, run since 1957 by the tightfisted John F. Connelly, seems more interested in long-term growth in earning power than in temporary hikes in the stock price.

Repurchasing stock seems to be a strategy gaining favor, says Charles Plohn Jr., a Merrill Lynch vice president, with volume currently running above 100 million shares a year. But the conventional financial strategies—typified by high dividends and costly acquisitions—still prevail.

Some managers regard stock repurchase as a strategy of despair. Echoing Winston Churchill, they declare they did not rise to power to liquidate the great companies whose first ministers they have become. But to others, repurchasing shares is a testament to faith in the company's future. Warren Buffett, the Omaha financier who has thought deeply and well on the subject, says it is foolish to pay 12 times earnings to acquire an outside company while passing up your own stock at 6 times earnings.

What about American industry? Isn't shrinking your capitalization depriving Americans of jobs? This argument, too, falls apart because the capital released by a company that shrinks its capitalization simply flows back into the capital stream for more efficient use elsewhere.

In short, a stock is not a bond—although many shareholders and many managements fail to understand the distinction. But so long as investors fail to differentiate between a piece of paper that brings current income (a bond) and one that conveys a stake in growth (a stock), many managements will continue to pay out more in dividends than is good for their companies. They will be doing so because it is easier for them that way. Says MIT Professor Fischer Black, after years of studying the dividend puzzle: "Corporations are acting sensibly. It's the shareholders who are acting strangely in marking up the price of the stocks that pay the higher dividends." ■

Generous to a fault

These ten companies are short of earnings but big with payouts.

Company/*business*	1981 sales (millions)	1981 earnings (millions)	Interest coverage	12 months EPS	12 months dividends	Recent price	Yield
Ashland Oil/*oil*	$9,262	$90.0	2.6	$2.30	$2.40	24¾	9.7%
Beneficial/*finance*	2,324	–11.6	NA	–1.03	2.00	16½	12.1
Clark Equipment/*constr equip*	1,360	29.9	1.5	1.60	2.20	19½	11.3
Crown Zellerbach/*forest prods*	3,148	75.3	2.5	1.96	2.30	19¾	11.6
Diamond Intl/*packaging*	1,289	31.8	2.0	2.33	2.20	37¾	5.8
Emery Air Freight/*air transp*	579	18.7	2.9	0.82	1.00[1]	7⅞	12.7
Fruehauf/*trucks*	2,175	21.4	1.4	0.45	1.90[2]	18½	10.3
Hoover/*appliances*	750	–18.8	INE	–1.65	1.00	10	10.0
Pittston/*coal*	2,228	42.7	3.7	1.10	1.20	15¼	7.9
FW Woolworth*/*retail*	7,223	81.9	3.5	2.18†	1.80	18⅜	9.8

NA: Not applicable. INE: Interest not earned. [1]Current rate: $0.50/year. [2]Current rate: $1.40/year.
*12 months through May 1982. †12 months through April 1982.

Sources: Value Line; Standard & Poor's

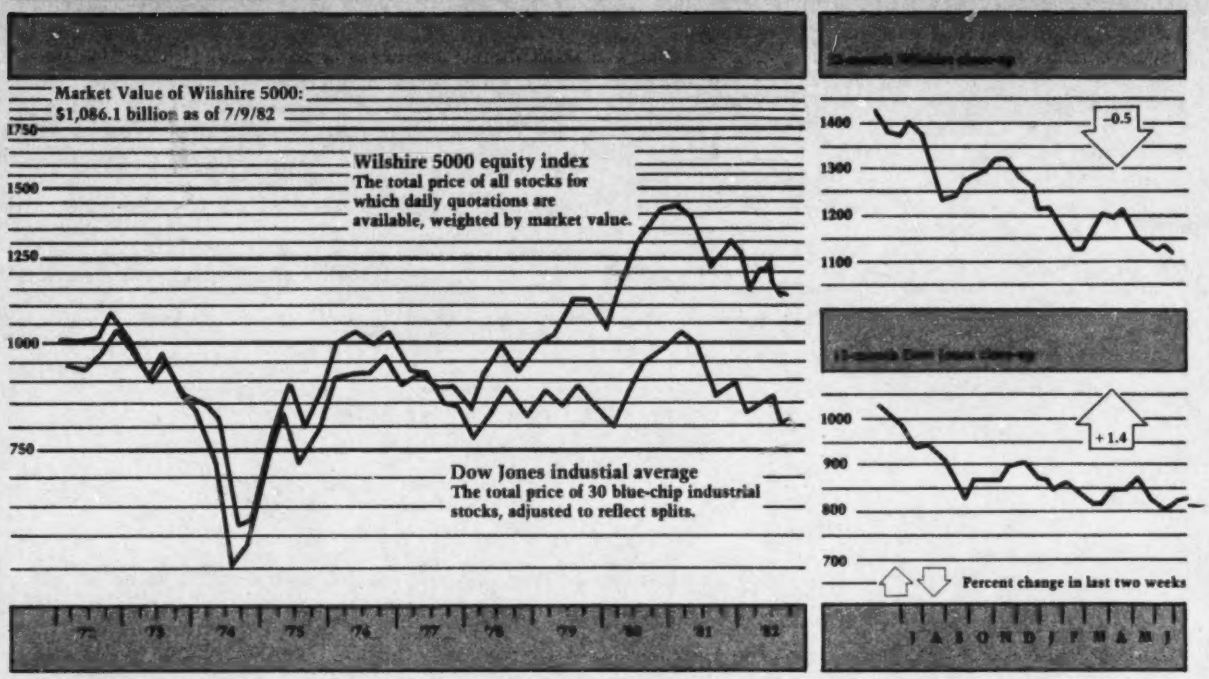
Parsimonious with a purpose

Can share buy-backs replace dividends? They worked for these winners.

Company/*business*	Earnings per share latest 12 months	Earnings per share increase from 1976	Change in shares 1976-81	Recent price	Increase from 6/30/76	Current yield
Chris-Craft Ind/*broadcasting*	$3.41	774%	–51.2%	37¼	690%	nil
Mary Kay Cosmetics/*cosmetics*	1.86	481	–26.3	27½	511	0.7%
Tandy/*retail*	2.10	347	–28.9	29	558	nil
Teledyne/*conglomerate*	19.67	331	–21.5	100⅞	232	nil
Commerce Clearing House/*publishing*	3.65	288	–28.1	56¼	379	2.7
Marriott/*hotels*	3.30	275	–28.3	32½	102	0.9
Monogram Inds/*metals prods*	6.67	225	–49.7	43	202	2.2
Metromedia/*broadcasting*	14.42	218	–39.6	201	605	2.5
Capital Cities Comm/*TV and newspapers*	6.24	171	–12.1	70	154	0.3
Crown Cork & Seal/*packaging*	3.91	38	–7.2	24⅞	37	nil
Value Line Industrial Composite	3.58*	59*	+9.8	26	13*	4.4*

*Fiscal year 1981.

The Forbes/Wilshire 5000 Review



Split decision. The 30-stock Dow industrials advanced 1.4% over the past two weeks and show a 0.5% gain over the previous month. But while the Dow registered a minor advance, the Wilshire index, which measures more than 5,000 stocks, hit a 12-month low. This raises an interesting question. Many analysts now believe that the market is hitting a major bottom. If so, will the Dow be a leading indicator of the recovery? That could be good news—especially for those investors who hold blue-chip stocks.

The weakest area of the recent market is NASDAQ issues, which are down 1.4% over two weeks and 3.2% over four weeks. The Amex is in the red by slightly less—1.6% for two weeks and 4.3% for four weeks. On the other hand, NYSE stocks performed relatively well. They are off only 0.3% over the last two weeks.

High-P/E issues were again out of favor. This time they registered a 4.6% two-week decline. Of the ten focus groups on track, these stocks have been hit the hardest over the past year. The group is now behind almost 28% for the 52-week period. In the last two weeks, however, two focus groups fared better than the overall market: Low-yield issues lost just 0.3%, while bargain hunters helped low-P/E securities move up 1.6%.

Close-up On The Equity Markets

Percent change	Wilshire 5000	Dow Jones Industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	-2.5	1.5	-2.2	-4.3	-3.2
in last 52 weeks	-19.4	-14.3	-16.3	-35.4	-28.2

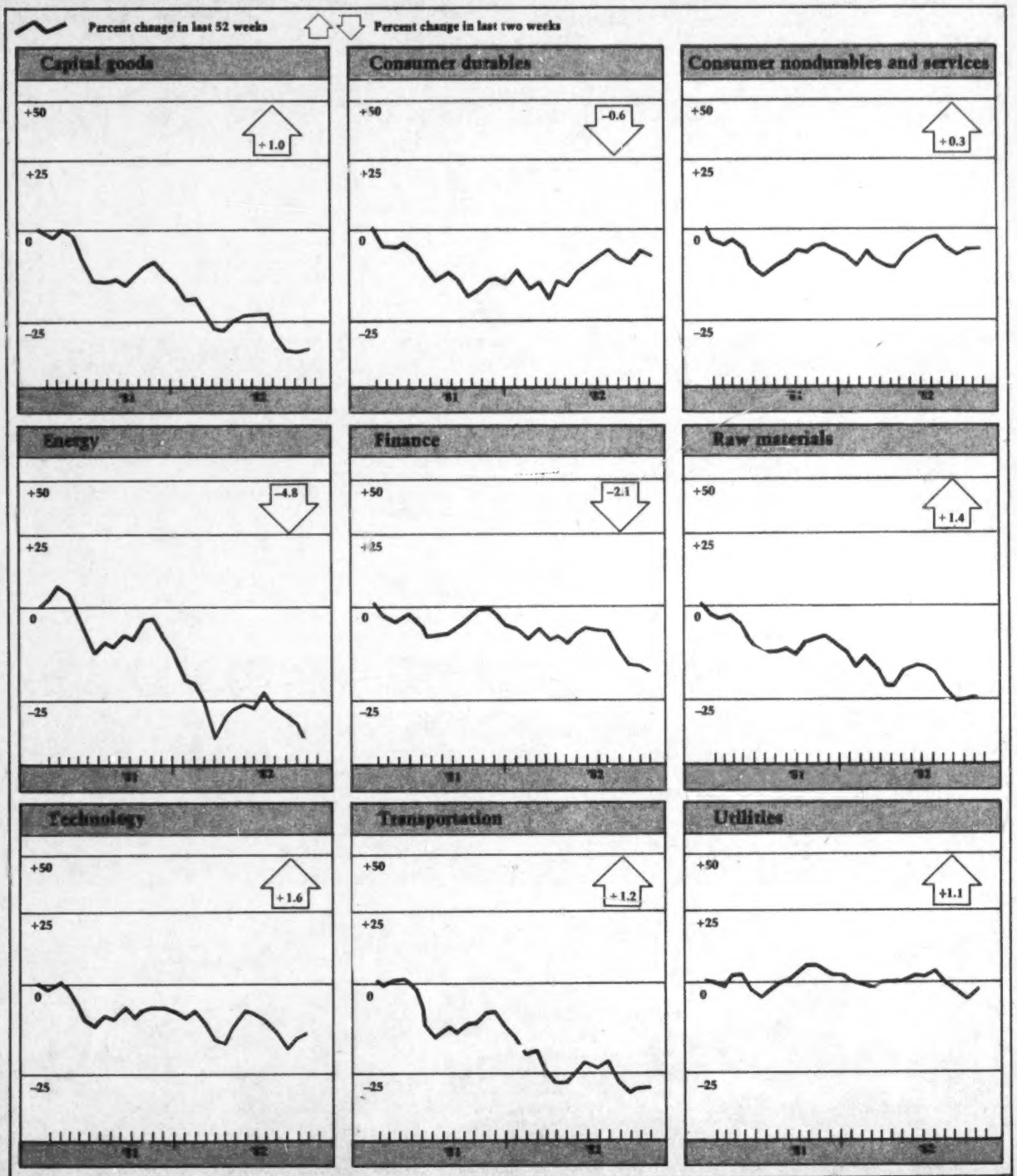
Percent change	Volatility*		P/E multiple		Dividend yield		Growth profile†		Share price	
	high	low	over 25	under 8	over 7.5%	none	high	low	over $40	under $5
in last 4 weeks	-2.4	-1.4	-4.6	1.6	-1.8	-0.3	-1.8	-1.2	-2.2	-2.9
in last 52 weeks	-18.4	-0.8	-27.8	-5.3	-0.4	-11.6	-13.2	-6.8	-17.1	-17.3

*A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations; low-volatility issues are more stable.
†A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 7/9/82. Prepared by Wilshire Associates, Santa Monica, Calif.

Energy falls again. Bad news from OPEC and Oklahoma helped energy stocks lead the market down. They were off 4.8% during the past two weeks. That makes a 12-month decline of nearly 35%. On the OPEC front, investors are worried about lower prices. Back in Oklahoma, meanwhile, the collapse of Penn Square Bank led to concern about energy-related loan losses. That hurt the finance sector, too, which posted a 2.1% two-week decline.

All, however, was not gloom and doom. Over the last two weeks, six of the nine sectors clearly bucked the market and ended up in the black. Technology issues show the best advance, a 1.6% gain. Raw materials are close behind with a 1.4% jump. And transportation issues moved ahead 1.2%. Utility stocks gained 1.1% and are once again close to breaking even for the 12-month period—the best performance of any group.



Note: All data for periods ending 7/9/82. Prepared by Wilshire Associates, Santa Monica, Calif.

Depressed by the economy? Check this list of companies that are poised to score earnings turnarounds this year.

Look what's just around the corner

By Paul Bornstein

As the recession enters its dog days, 1982 looks more and more like a year in which you would expect lots of companies to move into the red. The surprise, however, is that some corporations are actually heading in the other direction. Look at the table below. The 16 companies on this list lost money in 1981 but should move into the black this year.

Sure, it's a motley list. Almost half the group are fledgling high-tech firms. There are also several representatives from more mundane fields such as coal mining, forest products and trucking. But all have one thing in common: The consensus among analysts is that these companies are due for an earnings turnaround in 1982.

Westmoreland Coal and North American Coal, for example, are expected to take big leaps forward. Last year Westmoreland was hit by a United Mine Workers strike; North American Coal had taken writeoffs from mine closings in addition to labor troubles. With these problems behind them, however, both companies should be close to their traditional levels of profitability this year.

Then there's Centran, a Cleveland-based bank holding company. "Three years ago they bet on municipal bonds and lost," says Bob Back of Prescott Ball & Turben. So far this has cost Centran roughly $20 per share. Now, however, Back likes the stock because of its liquidity. The company picked up $60 million from selling its bonds at a loss and $70 million from selling a nonvoting preferred stock to Marine Midland. The consensus earnings estimate for Centran is $1.33, but Back is more bullish and expects to see $2.10 in 1982.

GenRad, a maker of testing equipment for semiconductors and printed circuit boards, is another potential turnaround. Its Development Systems and Semiconductor Test divisions once produced big losses, but one of those operations is breaking even and is up for sale, while the other is somewhat closer to profitability. "Anticipation of an earnings turnaround has already helped the stock regain some lost ground," says John Geraghty of Dean Witter Reynolds.

All the news isn't good, of course. The 14 companies on our second table *(see p. 96)* were profitable in 1981 and seem likely to post big losses this year. With steel mills now operating at an average of 45% of capacity, this list resembles an industry *Who's Who*. Florida, Inland, National and Republic have already cut their dividends—a good indication that tougher times lie ahead.

Playboy Enterprises is an interesting situation. It is expected to fare poorly because of the loss of its highly

Breaking into the black

The 16 companies below all posted losses in 1981, but analysts predict that they will become profitable this year.

Company/*business*	Recent price	52-week price range	Earnings per share 1981	1982E	latest 12 months	Dividend	Yield
American Mgmt Systems/*comp softwr*	12¾	16⅛– 9⅛	–$0.46	$0.92	–$0.45	—	—
AVX/*electronics*	17	35½–11½	–0.60	1.09	–0.75	$0.32	1.9%
Bohemia/*forest products*	11⅛	23⅜–10⅛	–1.96[1]	1.62	–1.13	0.66	5.9
Centran/*bank*	13	22 –13	–5.71	1.33	–24.48	0.40	3.1
Coastal Corp[2]/*oil*	20⅜	59½–18⅛	–1.36	2.45	–1.69	0.40	2.0
Colonial Penn Group/*insurance*	13⅜	22⅛–12	–1.44	1.79	–1.32	1.40	10.3
Compugraphic/*phototypesetting*	11½	27 – 9¾	–1.33	1.26	–0.99	—	—
Cordis/*medical instr*	24½	29¾–14¼	–3.25	1.16	0.32	—	—
Flexi-Van/*trucking*	19¼	25⅝–12	–0.15	2.49	1.32	0.80	4.2
GenRad/*electronics*	19	22⅛–11⅞	–0.23	0.81	–0.18	0.10	0.5
Golden West Homes/*manufctrd homes*	8	12⅜– 5⅛	–0.16[3]	0.72	–0.16	—	—
Natl Semiconductor/*electronics*	19⅞	28⅜–15¼	–0.47[3]	1.30	–0.47	—	—
North Amer Coal/*coal*	27⅞	40¼–20¼	–0.16	4.90	1.08	0.80	2.9
Siltec/*electronics*	9¾	16⅛– 7½	–0.53	0.55	–0.58	—	—
JP Stevens/*textiles*	14⅝	18 –11⅞	–1.59	1.33	–1.46	1.20	8.2
Westmoreland Coal/*coal*	16¼	29 –16¼	–2.17	2.65	–0.85	—	—

[1]Fiscal year ending April 1982. [2]Plans to spin off two companies. [3]Fiscal year ending May 1982. [4]Playboy recently announced it expects a net loss of $35 million (–$3.50/share) in 1982. E: Consensus estimate.

Source: Institutional Brokers Estimate System On Line, Lynch, Jones & Ryan.

Statistical Spotlight

profitable casino operations. But the company has a minimum debt, is awash in perhaps $80 million in cash and could realize $30 million or so if it has to sell its Atlantic City holdings. If management can put these funds to good use, the stock may again become attractive.

The earnings estimates were provided by Lynch, Jones & Ryan's Institutional Brokers Estimate System On Line (IBOL). Each estimate is the average of the opinions of three or more analysts. In order to qualify for our lists a company had to either earn at least 50 cents a share in 1981 or be expected to earn this amount in 1982.

Most of the turnaround candidates in the first table are now selling close to their 52-week lows. Whether they will perform according to the analysts' expectations is another question. "The trend has been toward lower earnings estimates," says Stanley Levine, a Lynch, Jones & Ryan vice president. "That means the list of companies expected to move into the black is likely to get smaller." It also means that the list of projected moneylosers is likely to get bigger. ■

Seeing red

These 14 companies were profitable last year, but if analysts' estimates are correct they will lose money in 1982.

Company/*business*	Recent price	52-week price range	Earnings per share 1981	1982E	latest 12 months	Dividend	Yield
Asarco/*metals & mining*	21	42⅞–17¼	$1.54	–$0.2[1]	$0.55	$0.40	1.9%
Bethlehem Steel/*steel*	15¼	25¼–15⅛	4.83	–0.95	2.71	1.60	10.5
Brown & Sharpe Mfg/*industrial mach*	12⅜	29¼–12	1.93	–0.61	0.06	0.80	6.3
Florida Steel/*steel*	11	31⅜–10½	3.37	–1.35	1.14	0.52	4.7
Gleason Works/*industrial mach*	9⅛	18⅞– 8½	1.72	–0.49	0.69	0.80	8.8
Harnischfeger/*construction equip*	7¼	15⅜– 6⅞	2.93	–0.56	1.80	—	—
Inland Steel/*steel*	20¼	30⅞–18¾	2.69	–0.70	0.58	1.00	4.9
Kaiser Aluminum & Chem/*aluminum*	12½	23¾–12	3.08	–0.15	0.90	0.60	4.8
National Steel/*steel*	14⅜	27⅛–14⅛	4.20	–2.83	1.22	1.00	7.0
Phelps Dodge/*copper*	22½	46⅞–20¾	2.61	–1.16	0.35	0.40	1.8
Playboy Enterprises/*publishing*	8⅞	13¼– 5½	1.45	–1.98[4]	–2.73	0.12	1.4
Republic Steel/*steel*	17¼	29¼–17⅛	11.75	–2.06	4.15	1.00	5.8
Revere Copper & Br/*metal fabricating*	8½	25⅜– 8⅜	1.64	–1.40	–0.70	—	—
Southwest Forest Inds/*forest products*	9	22½– 8¾	1.13	–0.58	0.14	—	—

[1]Fiscal year ending April 1982. [2]Plans to spin off two companies. [3]Fiscal year ending May 1982. [4]Playboy recently announced it expects a net loss of $35 million (–$3.50/share) in 1982. E: Consensus estimate.

Source: Institutional Brokers Estimate System On Line, Lynch, Jones & Ryan.

The Money Men

Larry Tisch made a fortune in real estate. Then he made a fortune in common stocks. Now, he doesn't like either market.

Tips from a master

By Ben Weberman

THERE ARE PLENTY of people who will tell you that Laurence Tisch is the smartest investor around. So, when one has a chance to interview the Loews Corp. chairman, the obvious question is: What looks good to you? Larry Tisch's reply comes as a bit of a shock. He doesn't much like the stock market these days. He thinks even less of real estate. So, what is Larry Tisch buying?

Bonds.

Bonds—those certificates of guaranteed confiscation? Yep. Since last year Tisch has cut the stock position of CNA Financial Corp., Loews' insurance subsidiary, by "a few hundred million dollars" and moved that money into bonds, which, as of now, he believes will outperform equities for the next year or so. "But things change so fast, everything is subject to review."

That's the style of Larry Tisch. Loews has most of its taxable investment in Treasury securities—with maturities of up to seven years. The company pension fund is primarily in Treasuries, with a minimal amount in Aaa- and Aa-rated industrial bonds and common stocks. "I will buy corporate bonds when the time comes," Tisch explains, "but the historic spread between Treasury issues and other debt obligations doesn't exist today, so Treasuries represent the best values here."

Tisch, with his 29-year-old son, James (Loews vice president, financial analysis), at his side, began buying bonds for CNA in 1981. During the year, he sold $400 million worth of stocks, two-thirds of CNA's equity holdings. Meanwhile, he poured the money into Treasury and government agency debt obligations and some tax-exempt securities. Tisch sold much of

While three out of four individual traders lose money, nearly all the pros make money—sometimes they make quite a bit.

IT HELPS TO KNOW THE GAME

By Stanley W. Angrist

It has long been accepted wisdom in the commodity business that 80% to 95% of all individual traders lose money. My own examination of the literature on the subject persuades me that the percentage of losers isn't quite that bad—below 80% is my guess. Whatever the exact figures, though, the ratio of net losers to net winners is undoubtedly high—for good reasons.

But professional money managers should do better than individuals because they generally avoid making the mistakes that individual speculators almost always make. That is, they trade adequately capitalized accounts, manage diversified portfolios, have well-tested trading systems, seek long-term appreciation of capital rather than instant gratification—and they shun the quick-buck artists. Logically, then, the pros should do better. According to a new study, indeed they do.

Morton S. and Cynthia L. Baratz at Managed Account Reports set out to test the proposition that the pros can do better than amateurs in managing commodity accounts. Initially, they examined the track records for eight public funds and eight private pools (which, unlike the public funds, are not registered with the Securities & Exchange Commission) that have track records at least three years long. They examined both groups over a three-year period that ended on Mar. 31, 1982.

All 16 of the limited partnerships examined in the study made money for those investors *who were in at the start and stayed the entire course.* That's a major assumption in the study. However, the range of the rates of return was wide indeed. The largest annual compound rate of return was 89.1%, while the lowest was 4.7%; the mean for the group was 36.2%. Over the same time period the Consumer Price Index went up at a 12.8% annual rate, while the GNP price deflator rose at a 10% annual rate. So, on average, investors' funds compounded at a rate 3 times that of inflation.

The average annual rate of return achieved by the public funds was 32%, while the private pools grew at a 40% rate. Of the 16 funds studied, 6 had drops in equity that exceeded 30% in any one episode. Up to a 30% drop is normally considered tolerable in the industry. Three public funds and three private pools shared this dubious honor. The largest drawdown was 56%, and that was a private pool that still achieved a 35% annual compound rate of growth.

The second half of the study examined 24 funds (14 public funds and 10 private pools) that were available for two years from March 1980 through March 1982. It included the same 16 funds in the longer study plus 8 additional funds. The average annual growth rate in this period was 13.2% for the public funds—nearly 60% smaller than it was during the three-year study period. Private pools grew at a 27.9% annual rate, while the average for both types combined was a little over 19%.

Choppy markets took their toll on the pros during the two-year period. Four of the 14 public funds suffered net losses. Three others showed gains that were less than the rate of inflation. None of the pools suffered net losses, and only two of the ten showed growth rates lower than the inflation rate, and then only marginally so.

Details of the study and a performance record for the funds through the end of May may be obtained for $5 from Managed Account Reports, 200 Joseph Square, Columbia, Md. 21044. ■

Stanley W. Angrist is a commodity speculator, consultant and longtime observer of the commodity markets.

Knowhow at work

The gray bars show the average annual compound rate of growth for the top and bottom three public funds for a three-year period ended in March 1982. The colored bars show the performance of these same funds over a two-year period ended in March 1982. At right, the same data for private pools. Professionals clearly outperformed most amateurs.